

JUVENILE LIFE INSURANCE:

A REPORT ON CURRENT PRACTICES



**A Survey
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I. BACKGROUND

In late 1999, the Office of Insurance Commissioner contacted 100 life insurance companies identified as actively marketing life products in the state. The survey consisted of 13 questions centered on the juvenile insurance market in Washington. Seventy-seven of the 100 companies responded, with nine respondents indicating they did not participate in the juvenile market.

The survey was not intended as a source of actuarial or statistical data, but examined several key questions raised about the juvenile life insurance market.

This sample reflects a sizeable share of the active marketplace and is adequate for the general observations and conclusions about the juvenile insurance marketplace and market practices among the life insurers active in juvenile insurance.

As a condition of the initial study, individual insurers were told that their responses would be considered proprietary and would not be released as public information. Material excerpted for this report has not been identified by company name.



II. EXECUTIVE SUMMARY

Life insurance for children and teen-agers is by its nature a unique product. Unlike adult life coverage, juvenile life insurance is almost invariably purchased by someone other than the insured person. Even its staunchest advocates concede that its very nature opens a sinister possibility, i.e., that unscrupulous adult purchasers may be tempted to buy coverage with the intent of profiting from the death of the insured child.

In fact, two recent Washington state cases in which children died under suspicious circumstances helped inspire this survey. News reports across the country have circulated additional cases — and additional questions. The local and national cases raise legitimate questions about the way insurance coverage for children is sold.

This survey was undertaken as an initial review of the consumer protections that exist in Washington state and to recommend changes where warranted.

Significant findings include:

I. TOO MANY INSURERS DO NOT ASCERTAIN THAT PEOPLE PURCHASING LIFE INSURANCE FOR CHILDREN HAVE A LEGITIMATE INSURABLE INTEREST.

Relatively few companies responding to the survey say they limit such purchases to the immediate family – natural father or natural mother. Other companies limit such purchases to varying degrees. Several limit the amount of coverage available to any purchaser. Some say they will not sell coverage to a step-parent unless he or she is married to one of the natural parents.

A handful of carriers cited specific state laws or regulations companies can use as standards when they screen juvenile life applications. For example, New York specifically limits the total coverage available for children by the age of the insured.

Death benefits claimed by Washington state beneficiaries in recent years have not been excessive on the average. In fact, the average death benefit paid out has been quite small and did not exceed the average policy benefit sold for any of the five years.

II. THE MAJORITY OF COMPANIES RESPONDING TO THE SURVEY DO NOT APPEAR TO HAVE STRONG UNDERWRITING GUIDELINES IN PLACE.

One insurer said its overall guidelines were drawn from strong regulations in a few states. But the same company also conceded that the carrier applies its guidelines less strictly outside those specific states.

A significant number of companies did not cite any strong protections for children. In fact, few of the responding companies appear to operate under strong policy statements about the need to protect children in this market.

The average size of juvenile life coverage purchased during 1994-1998 ranged between \$23,000 and \$30,000. This exceeds the funeral and death expense one may expect when a child dies.

The top of "the average range of coverage" sold went much higher, to \$200,000. This suggests significant numbers of parents are being sold juvenile coverage at questionable levels if death expenses are the motivation for coverage. Some individual juvenile life purchases were made for very large amounts – ranging as high as \$1 million.

III. THE STATE OF WASHINGTON SHOULD ESTABLISH STRONGER UNDERWRITING GUIDELINES AND OTHER STANDARDS TO PROTECT CHILDREN INSURED IN THIS MARKET.

Economic loss associated with the death of a child should be tied to the expenses of funeral and burial. Many suggest the amount of this typical expense is as low as \$5,000.

Beneficiaries should be screened. Suspicion will inevitably occur when beneficiaries are not natural parents. Applications from aunts, uncles, grandparents, siblings, and family friends should face automatic scrutiny by agents and underwriters. Some states and a few companies even question the insurable interest of stepparents and legal guardians.

Carriers should keep records of juvenile life applications they reject. Rejected applications may be an important source of information for investigators looking into the deaths of insured children. Few of the insurers indicated in the survey that they have special procedures to keep detailed records of rejected applications.

III. CONTEXT OF THE SURVEY

The death of a child may be the single most shattering loss possible for parents, yet in today's headlines, a growing number of child deaths have been linked to the purchase of life insurance by parents or other family members. Too often, the questions that arise are not the result of evidence but of rumor and unsupported suspicion.

In fact, investigators often have relatively few clues with which to work with. While life insurance is a classic murder motive in mystery fiction, it is more easily suspected than proven. Juvenile life insurance deaths may be even more difficult.

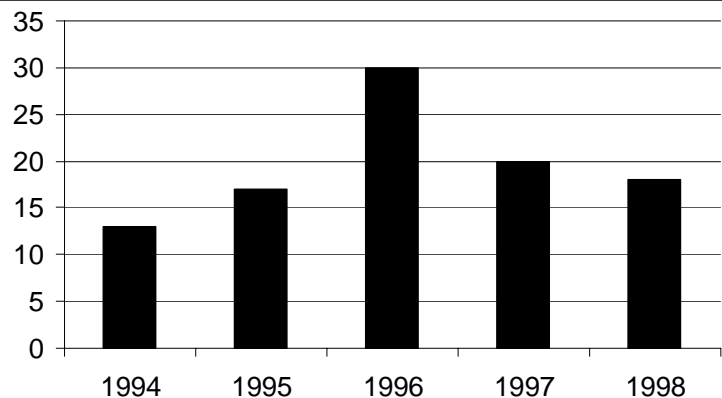
News coverage of two well-publicized deaths of children on separate sides of Washington state have stirred these rumors and suspicions over the past year. Both revolved around a parent's or guardian's purchase of life insurance prior to the deaths. In both cases, surviving family members had filed claims for the insurance benefit. In a Spokane case, a father was subsequently charged with his son's death (and then committed suicide in jail). In the West Side case, authorities are continuing an investigation into the circumstances of a small boy's drowning. (*Appendix D.*)

These kinds of events remain a rarity, and even industry critics do not suggest that life insurance is sold with an expectation of abuse. However, the real concern is that the system may be victim to abuse. Carriers and state legislators may legitimately ask what precautions the industry has taken in the past and reasonably should be taking now.

One other fact emerges. Juvenile life insurance is a lucrative market for the industry, in part, because the lapse rate is quite high and the claims rate understandably low. Indeed, children should be the healthiest population covered by life insurance.

This profitable picture is one that may not beg for close internal examination, yet responsible carriers may welcome an objective analysis of potential problems and possible solutions.

FIGURE 1: NUMBER OF JUVENILE DEATH BENEFITS PAID



Average Death Benefit Claimed:				
1994	1995	1996	1997	1998
\$7,482	\$12,585	\$27,035	\$4,300	\$15,876

Responses to the survey show some variance in the size of the average juvenile life death benefit claim in Washington state. These amounts are relatively modest by comparison to the size of some policies sold.

IV. SURVEYING JUVENILE LIFE INSURANCE:

This report attempts to independently address initial concerns and define more specific areas in which regulators, the industry and consumers should address the sale of juvenile life insurance and the precautions that may be necessary to protect children.

Life insurance traditionally is the means by which individuals protect their families against loss of income. Because few children earn significant incomes and because the death of a child represents relatively small economic consequence, life insurance may be seen as of very little value to a family's finances. In fact, most consumer advocates are critical of juvenile life insurance and routinely advise against its purchase.

On the industry's side, there are two important mitigating factors:

The death of a child is of such extreme personal consequence that the act of purchasing life insurance for one's children may be itself a source of reassurance for many parents. While the benefit itself in such cases hardly would be consoling, it is also possible that the small economic burdens of a child's death, including the funeral and burial expense, would be mitigated by life insurance. The insurance paid out in such a death also could be helpful with recovery – taking time off work without financial loss, for example.



Second, many parents and grandparents also may purchase life insurance for children with a more concrete motive. When estates are divided among family members prior to the death of older relatives, that may be perceived by families as increasing the economic loss possible in a child's death. In addition, the purchase of juvenile whole life products may also serve as a savings instrument or as a way to encourage the child's development of prudent financial practices.

Based on the Washington state survey, these are the common reasons for purchasing coverage. To varying degrees, most carriers said they have set some underwriting standards in place to detect purchases that would move beyond these uses of juvenile life insurance.

FIGURE 2: TOTAL JUVENILE LIFE POLICES/RIDERS SOLD, 1994-1998

	Term	Whole	Rider	Annuity	
1998	1,181	26,759	1,469	131	
1997	1,298	21,724	1,810	198	
1996	830	22,654	1,754	184	
1995	1,502	25,039	966	241	
1994	1,509	21,706	1,065	240	
Totals	6,320	117,882	7,064	994	132,260

Applications rejected during the period 1,480*

Most juvenile life policies sold in Washington state are whole life policies, not riders, annuities or term life contracts.

(*This number is an estimate, since most respondents said they were unable to obtain the number of applications rejected or determine why applications had been rejected. This number is based on the rate of rejection submitted by insurers that did respond.)

OF THE 77 COMPANIES RESPONDING, 68 SAID THEY SOLD SOME FORM OF JUVENILE LIFE INSURANCE:

- 48 sell juvenile life coverage as riders on adult policies
- 48 sell individual juvenile life policies, including term, whole life and universal life.
- Many of the companies sell both kinds of coverage. However, many companies noted that they do NOT target juveniles in their marketing and that this coverage represents only a small part of their life business.
- "This is not a big market for us," wrote one company representative. "If there is a sale, it would more likely be initiated by the client than the agent. We have insurance available to age 0 for both whole life and universal life. Our child rider is limited to \$12,500 of coverage."

One issue for state policymakers is whether regulators should have more of a say in limiting access to this market — perhaps setting additional qualifications that could be required before carriers can sell juvenile life policies. Currently, the decision to participate in the juvenile market is almost entirely up to an individual carrier.

ONLY NINE OF THE COMPANIES SAID THEY DO NOT PARTICIPATE IN THIS MARKET. MOST SAID IT WAS SIMPLY BECAUSE THEY HAD NOT FILED THE APPROPRIATE PRODUCTS IN WASHINGTON STATE AND THUS COULD NOT LEGALLY SELL THEM.

- The others said they simply do not sell those products, but declined to list a “triggering event” or other circumstances that resulted in that decision. One company said the line of business was simply “not profitable.” Another said the company wanted to focus on older adults.
- One company said it does not actively market juvenile life even though it does not have a policy against it.
- Another company said it had sold few policies because none of its products were specifically designed to address the juvenile market.

THE COMPANIES THAT PARTICIPATE IN THE MARKET ALSO USE DIFFERENT MECHANISMS (AND SOMETIMES, MORE THAN ONE) TO LIMIT ACCESS TO THE MARKET. THESE MECHANISMS ARE DEFENSIVE, I.E., INTENDED TO REDUCE THE COMPANY’S POTENTIAL RISK EXPOSURE. SOME OF THE MORE COMMON APPROACHES WERE:

- Health screening to eliminate children with serious disabilities or health problems.
- Setting minimum and maximum amounts of coverage (example: \$1,000 to \$250,000 per child),
- Tying policy limits to the amount of a policy covering the parents.
- Setting age limits for eligibility (example: not insuring infants younger than 5 days or young adults past their 22nd birthday).



FIGURE 3: SIZE OF DEATH BENEFITS IN JUVENILE LIFE INSURANCE SOLD, 1994-1998

	Average Size of Death Benefit Sold	Average Range of Death Benefit Sold
1998	\$28,165	\$9,706 to \$133,485
1997	\$26,093	\$8,808 to \$135,396
1996	\$29,281	\$9,780 to \$168,407
1995	\$24,872	\$8,107 to \$147,753
1994	\$23,566	\$8,967 to \$96,618

The average death benefit sold in Washington state is modest by comparison to the largest death benefits sold each year. Like the average death claim in Figure 1, these amounts indicate that most parents buying life insurance for children choose relatively small amounts of coverage.

THE VAST MAJORITY OF THE COMPANIES LIMIT JUVENILE LIFE INSURANCE COVERAGE IN SOME MEASURABLE WAY. COMMON RESPONSES:

- A number of companies refuse to sell more than a specified percentage of the parents' coverage of themselves. For example, one company restricts juvenile coverage to no more than half the parents' coverage up to a limit of \$250,000.
- Coverage is not always available at birth. Some companies wait for a week or other period before writing coverage on newborns. In part, this restriction is only good business in that it helps carriers avoid insuring the life of a child born with an as-yet undiagnosed infirmity.
- Some companies set specific limits: For example, one company said it would only write policies between \$5,000 and \$15,000.

Commonly, companies invoke "insurable interest" to rule out purchase by someone other than parents or grandparents. A few companies said they specifically rule out step-parents from being named as sole beneficiaries of juvenile life policies, although they may allow them to share that status with a natural parent. The amount of coverage also must "fit with family circumstances," some companies replied. Other companies require siblings to carry similar or greater amounts of coverage.

New York state insurance regulations set specific ceilings for juvenile coverage over different age ranges: \$1,000 maximum for under 2.5 years; \$2,000 maximum up to 9.5 years; \$3,000 up to 11.6 years; \$5,000 up to 14.6 years.

One company listed four specific questions that must be answered by its agent before sale:

1. How much life insurance is in force on the minor?
2. How much life insurance is in force on the applicant/owner?
3. Is the minor dependent on the applicant for support and maintenance?
4. If the relationship of the owner is "other" you must ascertain the exact relationship to the minor of both the owner and the beneficiary.



Medical exams are routine. Carriers seem very aware that a seriously ill newborn or older child could inspire fraudulent efforts to buy coverage.

Typically, companies do not require the signature of younger juveniles or any proof that the juvenile is aware of the transaction. But the carriers' interest in this protection increases with the age of the juvenile. Many companies add the juvenile's signature as a requirement of coverage at about age 15. Carriers also noted that a few states set ages at which juveniles should be aware of the transaction and must sign the application along with the owner/beneficiary.

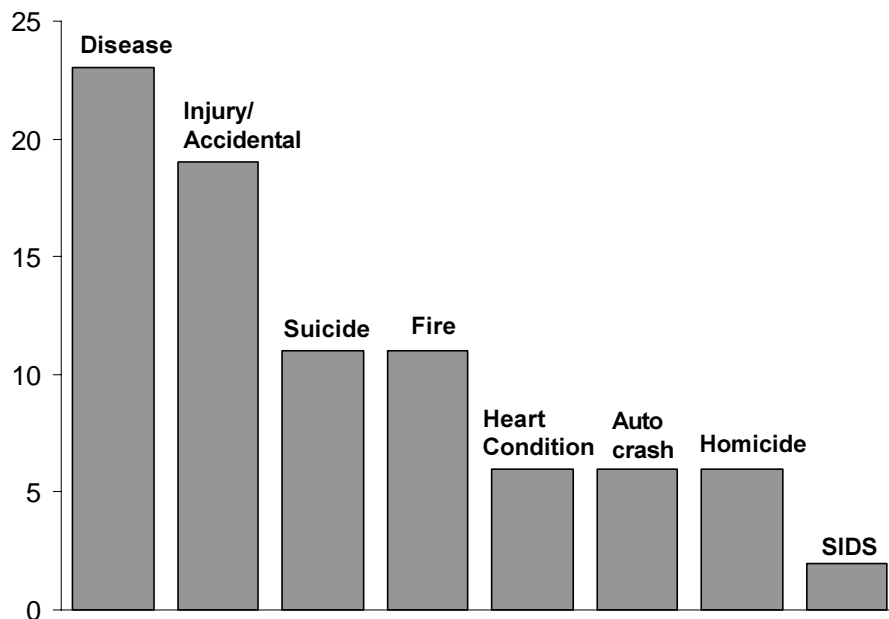
UNDERWRITING STANDARDS HELP SCREEN JUVENILE LIFE PURCHASES

Underwriting guidelines are insurance industry standards used to weigh the potential risks involved when deciding to extend coverage to individuals or groups. The majority of companies indicated they use informal protocol when underwriting the juvenile business, although some carriers provided Washington state with written instructions or policies. (Excerpts from these standards are in Appendix A.)

In general, underwriting guidelines that seem common include:

- Individual and family medical history always taken into account.
- The question of insurable interest usually addressed in terms of family need, and beneficiary designations.
- Amounts of coverage on siblings equal.
- The total cumulative amount of juvenile coverage relative to the life insurance coverage that parents purchase for themselves.
- Unusually high amounts of coverage, relative to family means, are questioned.
- Most companies require parents or guardians to sign the juvenile application.

FIGURE 4: CAUSES OF DEATH CITED IN DEATH CLAIMS, 1994-1998



Juvenile deaths cited in claims do not show a surprising pattern. Disease represented the largest single category, although fires, auto crashes, and accidental deaths would total more if they were all classified simply as accidental.

FEW JUVENILE DEATH CLAIMS ARE CHALLENGED BY CARRIERS

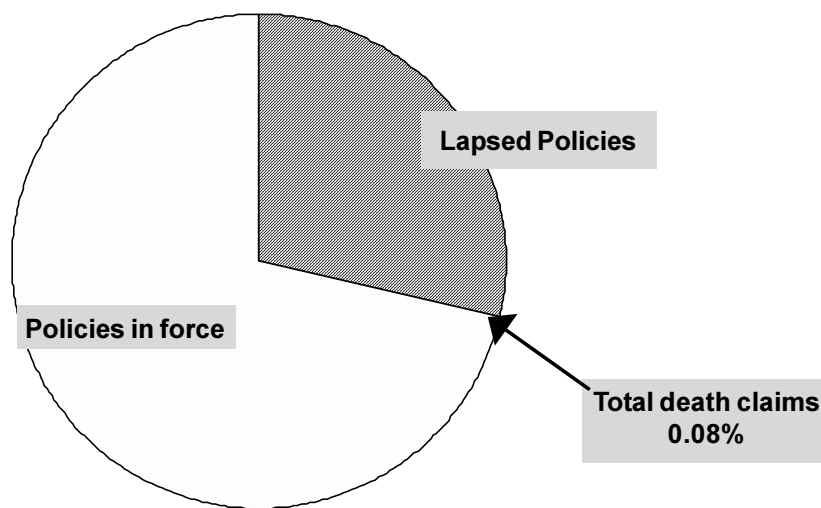
Diseases, auto accidents, and accidents in general were the most common cause of death cited by the companies that responded.

In only two cases did the companies report challenging death claims during the five-year period. One was for a pre-existing condition, and the other followed a misrepresentation by an agent. Both were contested successfully by the companies involved, and the claims were denied.

Many laymen may not understand that fraud, not murder, is the most important factor for carriers who want to successfully challenge claims. If the coverage was valid – i.e., purchased without misrepresentation or fraudulent intent, and premiums were paid – carriers will still be required to pay off the policy.

A death benefit would rarely be paid to someone who committed murder, but it would be passed down the chain of succession to the next closest heir. Commonly, carriers simply put the death benefits into escrow to avoid statutory interest requirements and let the courts sort out award of these benefits.

FIGURE 5: LAPSED POLICIES OVERSHADOW DEATH CLAIMS IN JUVENILE LIFE MARKETPLACE



- Lapsed policies during five-year period (1994-1998): 37,800
- Policies in force as of Dec. 31, 1998: 94,460
- Total death claims: 98

Juvenile life is a lucrative market for many insurers -- not surprising when one considers that young children represent the nation's healthiest portion of the population. Relatively few juvenile life policies end in claims, in part because so many juvenile policies are allowed to lapse over time.

MOST CARRIERS OPERATE WITH GENERALIZED UNDERWRITING GUIDELINES, NOT SPECIFIC WRITTEN POLICIES.

An inescapable conclusion of the survey is that there is a wide disparity in the underwriting approaches of different companies. Many of the companies responding to the survey see their precautionary responsibilities focused primarily on medical underwriting -- an attempt to rule out pre-existing conditions or a child in endangered health. While this clearly is a legitimate concern, it should not be the sole determinant involved in a carrier's decision to extend coverage.

When companies were asked about their underwriting policies, their responses fell into three categories:

■ **11 COMPANIES:**

STRONG UNDERWRITING CRITERIA, ACCOMPANIED BY SAMPLES FROM POLICY MANUALS OR WRITTEN GUIDELINES

■ **27 COMPANIES:**

GENERAL UNDERWRITING CRITERIA, WITH FEW IF ANY ABSOLUTE GUIDELINES, AND NO WRITTEN GUIDELINES

■ **24 COMPANIES:**

NO GUIDELINES BEYOND GENERAL STATEMENTS ABOUT DETERMINING "INSURABLE INTEREST"

Sample comments from carriers' responses:

- Never allow children's coverage to exceed 50% of parents' coverage.
- \$10,000 maximum on any child
- \$100,000 limit on juvenile policies.
- \$15,000 limit on juvenile policies.
- "Maximum of \$250,000, and all children must be equally insured, up to one-half of what parents have on themselves."
- "No special criteria applies"
- Applications must pass an insurable interest test. A parent-child relationship passes the test.
- "Face amounts should not exceed parental coverage without explanation."
- Beneficiary/owner must be parent or legal guardian.
- "We employ a 3-to-5 times rule for coverage on parent/guardian. No other specific amount rules apply."
- "We don't have a set protocol for underwriting juvenile insurance."
- "There are no set criteria or special requirements."
- "...only when there is a legal insurable interest."
- Coverage (juvenile) is limited to \$50,000. Average coverage amount: \$50,000.



APPENDIX A: SAMPLE UNDERWRITING CRITERIA SUBMITTED BY COMPANIES

These are excerpts from policy manuals and underwriting guides submitted by carriers to the Washington state survey. Carriers are not identified.

DEFINITION OF FINANCIAL UNDERWRITING

It is called financial underwriting because it primarily involves the development and interpretation of financial information. But is it more than that. It is an analysis of the motivation behind the purchase of insurance and the willingness and ability to continue to pay renewal premiums. Since it is not possible to read the applicant's mind, evidence of speculation has to be circumstantial. Therefore, the underwriter must seek confirming or refuting evidence of speculative intent at time of application.

IMPORTANCE OF FINANCIAL UNDERWRITING

Financial underwriting is important not only to the underwriting staff, but also to other people in the company, especially those in pricing and marketing. Knowing what financial underwriting does is the first step toward understanding its significance to the insurance company as a whole.

Financial underwriting supports an insurance company's basic goal to recover expensed and make a profit. Actuaries support that goal by establishing mortality and persistency expectations in pricing a plan. Marketing supports the goal through sales and, once a plan has been priced and marketed, it is up to the underwriter to produce a profitable block of business.

Large amount applications bring with them pressure for approval for both business and marketing reasons. That pressure sometimes is disproportionate to the company's risk exposure and profit potential. The underwriter's job is to be sensitive to anything that will interfere with the actuary's expectations. Poor underwriting will not produce the block of business anticipated by the actuary. And when that happens, the company may not achieve its basic goal of recovering expenses and making a profit.

Proficient financial underwriting requires knowledge and understanding of the norms for purchasing insurance as well as the ability to understand and use the tools and information common to the business and financial community. Also, the underwriter must be aware of the insurer's products, actuarial assumptions, and marketing strategies in order to determine how such products fit individual needs and influence the normal reasons for purchasing insurance.

POTENTIAL FOR VIOLENCE:

The risk of violent death (accident, suicide, homicide) is an important consideration in the underwriting of all cases, but it takes on added meaning when the amount of the application is large. Individuals who are affluent may participate in avocations which, by themselves, increase the risk of accidental death. A large amount of insurance may be motivation for suicide or homicide, especially when the insured's financial condition is stressed.

The risk of violent death may be substantially increased, especially if there is any indication of recklessness or poor judgment associated with participation in avocations, driving history, or habits. Frequent travel and habitat may also be reasons that influence the purchase of life insurance.

Illegal business practices or association with criminals or underworld organizations should be considered adverse for issuance of life insurance.

INSURABLE INTEREST:

Laws have been enacted that try to protect a person against a potential hazard created by the existence of the life insurance policy – the danger that the policyowner will seek the death of the insured in order to profit. The intent of insurable interest is to permit an individual to own a policy only where the individual's interest at time of application is in the continuance of the life insured as opposed to its destruction. Simply stated, the laws declare:

1. A person has an insurable interest in his/her own life.
2. Parents have an insurable interest in the life of their child. Each spouse has an insurable interest in the life of each other.
3. A person has an insurable interest in the life of another person where there is a reasonable expectation of pecuniary gain from continued life and a pecuniary loss resulting from the untimely death of the other person.

All of these conditions meet the test of an interest in the continuance of life that excludes an interest in its destruction.

Underwriters have adopted a broader meaning for the term "insurable interest" involving the concept of indemnification. For indemnification to be operating, underwriters expect that the beneficiary would stand to lose from the untimely death of the insured and gain from the insured's continued living; that is the beneficiary must have an "insurable interest" in the life of the insured. Where the beneficiary stands to gain from the early death of the insured and does not stand to lose anti-selection may be suspected.

INVESTMENT CONCERNS FOR VERY YOUNG AND VERY OLD:

Recent investment-driven products have resulted in an increase in the number of applications on the very young and very old market segments. There are special concerns when underwriting applicants/proposed insureds in these age categories.

Juveniles – The underlying motivations for purchasing insurance on children usually arises as part of family financial planning which is perceived as doing something that will benefit the child at some future date. Possible needs of the child include savings, education, or future insurability.

Observations about the applicant's judgment in financial planning and the economic resources available to the family help the underwriter to test the reasonableness (normalcy) of the amount and objectives. Sales effort should be directed first to the needs of the parent(s) and secondly, to the child. Even though the sale may be investment-driven, lack of or inadequate insurance on the family provider may suggest anti-selection or at least, inappropriate financial planning.

Children within a family are usually expected to be treated equally by the applicant and have similar benefits provided to them. The maximum amount of insurance on any child should be well within the limits of affordability. As a general rule, the amount of insurance should not exceed one or two times family income, nor should it exceed the amount of coverage on the parents or guardian.

Ordinarily, only parents, legal guardians, or grandparents may be assumed to have a legal insurable interest in the life of a child. Insurance applied for by other relatives should usually be declined unless the parent's written consent to issue is obtained and made apart of the policy. Also, if nonmedical declarations cannot be completed by parent or guardian, the child should be medically examined. For example, when the parent of other applicant does not reside in the same location (town, city, etc.) as the child, the nonmedical declarations by the applicant would not be considered adequate evidence of insurability. An inspection report would also normally be required.

Elderly Applicants – The ineffectiveness of underwriting selection tools may limit the ability of the underwriter to discriminate appropriately at extreme upper ages. This, in addition to the limited spread of risks, are reasons why many companies have elected to set an upper age limit, above which they will not accept applications. An upper issue age limit of 70 or 80 years old may be appropriate.

The underwriting challenge is to determine the attainability and desirability of the financial goal. Logical questions are, "Can the applicant develop the resource required at death if insurance were not in place?" "Is the purchase of insurance normal and desirable relative to available resources and other needs?"

Elderly Dependents – It is difficult to justify insurance purchased by sons and daughters on the lives of their elderly and dependent parents or close relatives. The financial objective being insured is to save money to fund death costs of the insured. While this may appear to be normal and strong objective that could be threatened by death, vulnerability to untimely death can be very questionable. Financial loss caused by premature death may not be present, since the financial burden of providing support for the elderly dependent is actually eliminated by death. In addition, it will be difficult for the underwriter to conclude that the objective is truly subject to defeat by untimely death. With advancing age, (the untimeliness of) death becomes more probable. The timing of the death may not be totally uncertain to the son or daughter who is applying for the insurance. The child of the elderly parent may be able to detect signs of deterioration in the dependent's health that are not always obvious to others – this may be motivating the child to apply for the insurance.

RELATIVE BENEFITS

All children within a family should be insured for like amounts. Nothing over \$250,000 will be considered on the life of a dependent child. Also, when underwriting juvenile risks there must be at least as much on the parent, in force or applied for, as is applied for on the child.

INSURING CHILDREN FOR PROFIT

Children are legitimately insured to protect their eventual insurability, provide some degree of savings or to cover final expenses. However, because they are totally dependent on their parents for financial support their untimely death would result in a net profit, if the insurance proceeds exceed the final expense amount. The possibility for a speculative motive would appear to become greater as the face amount increased. There absolutely must be a sound relationship between the amount applied for on the child's life and the financial situation and coverage of the parents.

INSURABLE INTEREST

The beneficiary must have an insurable interest in the Proposed Insured. Normally, a spouse or other family member is designated beneficiary. It is recommended that in those situations involving creditors that the indebtedness is best handled by collateral assignment. In those situations, the Proposed Insured names a personal beneficiary and submits collateral assignment forms ... in duplicate to the Home Office along with the application. If the creditor insists on being named beneficiary, we will accept such designation, however, a memo signed by the agent must be submitted to that effect. If a trustee is designated beneficiary, a Trust Endorsement ... must be submitted with the application. Include name and date of trust.

UNDERWRITING LIMITS OF INSURANCE FOR FAMILY MEMBERS:

The following table provides ... current guidelines for determining acceptable maximum face amounts on the lives of children.

0 - 5	6 – 10	11 – 15	16 - 19	Nonworking parent	Working parent
\$25,000	\$50,000	\$75,000	\$100,000	\$100,000	\$100,000
50,000	50,000	75,000	100,000	200,000	200,000
50,000	100,000	100,000	150,000	300,000	300,000
100,000	150,000	175,000	200,000	400,000	400,000
100,000	150,000	200,000	225,000	450,000	500,000
150,000	150,000	250,000	250,000	500,000	600,000
150,000	200,000	250,000	275,000	550,000	700,000
200,000	250,000	275,000	300,000	600,000	800,000
225,000	250,000	300,000	325,000	650,000	900,000
250,000	275,000	300,000	350,000	700,000	1,000,000

LITTLE JUSTIFICATION FOR “SUBSTANTIAL AMOUNTS” OF COVERAGE

There is little justification for substantial amounts of coverage on the lives of dependent children. Coverages are generally pursued in anticipation of future needs with the advantage of present lower cost. Interest sensitive products are attractive, especially single premium products. Although true justification of substantial amounts of coverage on dependent children seldom exists. Most insurers will issue amounts up to \$250,000 with evidence that the parents are insured at two to four times the juvenile amount and all siblings are insured with similar amounts. Exceptions to the normal practice exist when evidence is available showing substantial parental worth or specific worth already vested in the child's behalf.

CONSENT OF PARENT OR GUARDIAN

The regular life application is a combination form used for both children and adults. Please bear in mind that if the applicant is not a parent or guardian then the parent or guardian's consent for the insurance must be obtained.

CHILDREN INSURANCE GUIDELINES:

These are guidelines to be used for submission of applications for individual coverage on children. All applications are evaluated on individual merit and circumstances.

- The parents must be insured for coverage equal to or greater than the amount of coverage for each child to be covered, up to \$25,000. If the coverage applied for on the child exceeds \$25,000, the parent or legal guardian must have four times the coverage requested on the child.
 - The amount of coverage on each child must be equal among siblings.
 - The maximum amount of coverage for each child is \$100,000.
 - The amount of coverage in force on the parents, and other children already protected with insurance coverage should be shown on (a particular form).
 - Maximum age of a child for an individual policy that is purchased by the parent, guardian, or grandparents, is 21 years of age.
 - Grandparents may be Owner, Payer and Beneficiary; however, parents must sign as the legal guardian.
-

JUVENILE APPLICATION REQUIREMENTS:

- All applications must be completed in their entirety.
 - It is essential that the agent personally see each child at the time the application is written.
 - If the writing agent is unable to see the child and vouch for his/her insurability, it will be necessary that the child be examined.
 - Do not bind coverage if you have not seen the child.
 - An exam by a Medical Doctor or Paramedic is required.
-

DIFFERENCES IN UNDERWRITING FOR JUVENILE, ADULT LIFE:

- Juvenile insurance is seldom bought in anticipation of the child's early death. As a result, the underwriting of juvenile insurance takes a different slant from adult insurance underwriting. We should ask different questions. For instance, is the application on only one of the family's children? If yes, why? Shouldn't all the children be treated alike by their parents? One would think so. Consequently, underwriter will question if one child stands alone as far as insurance applications are concerned. If there is a large gap between children, this may explain situation.
- Another underwriting consideration is whether the parent or applicant has adequate insurance on his or her own life before purchasing insurance on the children. The usual rule is that at least twice as much insurance should be carried on the applicant as on the child; but, as usual, there is an element of judgement involved.

- Companies usually require that the parent be either the owner or beneficiary of the policy or both. Allowing another person named as beneficiary is highly unusual. Uncles or aunts might want to make a gift to nieces or nephews and make themselves beneficiaries, but unless they are responsible for the child's support, this would be a debatable situation. At the very least, the parent's permission should be obtained before proceeding and should be kept in the underwriting file to establish the validity of the transactions.
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UNDERWRITING QUESTIONS:

Questions to ask on Juvenile cases:

- What is the purpose for the insurance?
- Are they covering all children for similar amounts?
- If not, why?
- How much insurance does the applicant have in force?
- What is the applicant's income?

Questions to ask if the applicant of the policy is someone other than the parent in addition to the above questions:

- What is the relationship to the child?
 - What is the specific purpose for the insurance?
 - Why isn't a parent the applicant?
 - How often does the applicant see the child?
 - Who is the beneficiary?
-

FEATURES OF A JUVENILE LIFE PROGRAM:

- May also be advertised as "the Growing Life Plan."
- Issued to children past two weeks, through their 12th year.
- Individual plans only.
- Applicant and owner can be a parent, grandparent, great-grandparent or guardian.
- Policy builds a cash value that may be borrowed against or cashed in. The loan interest rate is 7.4%.
- The purchaser (parent/grandparent) is the owner of the policy until the policy anniversary date following the insured's 21st birthday. Ownership will automatically transfer to the insured at that time.
- No increase in premium.
- To apply for life insurance, the person must be a United States resident.

JUVENILE LIFE RESTRICTIONS:

- On any juvenile policy (issued at age 15 or less) the purchaser and the primary beneficiary should be a parent or legally appointed guardian of the child. Grandparents and others are sometimes eligible as purchasers. In such cases a parent must sign the acknowledgement and authorization on the application, give written consent to the issuance of the insurance, and verify the application information by completing a special parent authorization.
 - Usually, one parent must have at least as much family protection on their own life as the sum of the amounts in force and applied for on the child's life.
 - If the family has more than one child, the child to be insured cannot be insured for an amount larger than any older insurable juvenile brother or sister. However, if an older child is insured for less than \$15,000, an application for the younger child will be considered for \$15,000.
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PARENT'S AUTHORIZATION FORM:

When underwriting an application for a juvenile (and the parent is not the owner of the coverage) we require a parent to sign a Parent's Authorization Form. This indicates ... that the parent is aware of the coverage, has provided the medical history for the health questions, and has authorized the underwriting of the application. This signed form also allows us to order medical records if necessary.

The underwriting ... includes determining if the proposed insured is acceptable medically, if there is insurable interest and if there is financial justification for the amount requested.

The motivation to buy the policy and the potential for adverse selection are concerns when the premium payer and/or owner are not the parents or grandparents. Aunts, uncles, and family friends are "third parties" and requests for ownership by them will require extra scrutiny by underwriters. Even if state laws allow such arrangements, the prudent underwriter will still expect a logical and easily corroborated explanation from the agent. In addition, the informed consent to the insurance purchase on a child's life should always be granted in writing by the parent(s).

Other unusual juvenile application situations will be carefully analyzed for risk of adverse selection. They include:

- unequal coverage for siblings
- death benefits that surpass those on a parent (even if state law permits)
- coverage on foster children, "prospective" adopted children, and split-family children
- absence of a pediatrician or family physician
- reports of frequent or unexplained injuries or bruises in APSs or examinations
- descriptions of musculoskeletal abnormalities, devices (such as leg braces, etc.), "slow learner," "special child"

JUVENILE INSURANCE

Coverage on a child is frequently purchased as a means of savings for a child or to start an insurance program at a very favorable premium.

While the temptation is to presume that a young applicant will be in good health, the opposite may be more likely. Anti-selection is likely when there is little to no economic loss involved at death.

STEP-PARENTS, GUARDIANS, AND CONSENT FOR INSURANCE

- **A grandparent or other third party** cannot give consent for a juvenile insured. Only the child's parent or legal guardian can give consent for the child. The signature of at least one parent is required on the application.
 - **Adopted children** should be treated the same as natural children.
 - Unless legally adopted by the step-parent, **step-children** should not be considered for coverage as step-parents have no legal obligation or relationship to the child.
 - **Foster children** should not be considered for coverage.
 - **Step-parents** cannot be the sole owner or sole beneficiary of a policy on a minor step-child. The step-parent may be name jointly with the natural parent as either owner, or beneficiary, or both. Of course, if a step-parent is the court-appointed guardian of the step-child, that step-parent may be the sole owner and or beneficiary (In such instances, obtain a copy of the court order as proof for our records).
 - If there are **unusual facts** on a case involving step-parents, discuss the case with your manager.
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MANDATORY QUESTIONS FOR AGENTS:

- The following question must be answered if the proposed insured is under the age of 15 and the application is signed in New York (regardless of the type of policy applied for):
 1. **How much life insurance is in force on the minor?**
 2. **How much life insurance is in force on the applicant/owner?**
 3. **Is the minor dependent on the applicant for support and maintenance?**
 4. **If the relationship of the owner is "other" you must ascertain the exact relationship (this applies to the beneficiary too).**
- No application is to be approved in New York if we do not have the answers to these questions.
- It would be prudent underwriting to obtain this information on juvenile applications from other states, even though it is not required.

APPENDIX B: QUESTIONNAIRE DISTRIBUTED BY WASHINGTON STATE

Please answer the following questions about your company's insurance transactions in Washington state:

1) How does your company address this market? Do you sell juvenile policies or offer life insurance coverage via riders on adult coverage?

2) If your company does not participate in this market, is there a policy reason or statement to that effect, and was there a triggering event linked to that policy? When did that policy begin?

3) Does your company limit access to this market in any other way? Example: Some companies may not cover below or above certain ages. Other companies may restrict purchase of this coverage to an anniversary or birth date, or to the application of an adult with an insurable interest in the child. Still others may limit coverage to specific amounts, or not to exceed a set fraction of an adult's coverage with the same company.)

4) How many juvenile policies has your company sold over the past five years? Please identify the number and the different types of policies by year:

	Term life	Whole life	Life rider	Annuity
1998:				
1997:				
1996:				
1995:				
1994:				

5) What was the average size death benefit by year:

1998:
1997:
1996:
1995:
1994:

6) What was the range of policy amount sold over the five years by year? (Example: \$5,000 to \$100,000)

1998:
1997:
1996:
1995:
1994:

7) Of the policies sold during those five years, how many remained in force as of December 31, 1998?

8) How many death benefits were collected during that period? Please list by year and policy amount:

1998:

1997:

1996:

1995:

1994:

9) Please list the cause of deaths by year in cases in which the death benefits were collected. As a separate total, if necessary, how many infant deaths were linked to Sudden Infant Death Syndrome (SIDS) over the five years?

10) Please list any cases in which death benefits were successfully or unsuccessfully challenged by your company.

11. What underwriting criteria does your company employ in writing juvenile insurance? Is there a set protocol to follow or a handbook (instructions) that you can submit to us? Is there a specific definition of insurable interest? that applies to juvenile insurance?

12. How many applications for purchase of juvenile life insurance were rejected by your company during the five-year period under study?

13. Do you require the signature or any other consent of the insured prior to or during purchase of juvenile insurance?

We need your help to make this project as helpful and worthwhile as possible. Results will be shared first with participating carriers, and individual company statistics will be regarded as proprietary information that will not be included in the final report. If any company data is particularly sensitive, we ask you to call it to our attention so that it will not be released inadvertently.